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COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

AT RICHMOND, September 25, 2000

APPLICATION OF

CASE NO. PUA000060

VIRGINIA NATURAL GAS, INC.,

AND

AGL SERVICES COMPANY

For approval of a Services Agreement

**ORDER GRANTING APPROVAL**

On July 27, 2000, Virginia Natural Gas, Inc. (“VNG”), and AGL Services Company (“Services Company”) (collectively referred to as “Applicants”) filed an application with the Commission under Chapter 4 of Title 56 of the Code of Virginia. In the Application, Applicants request approval of an agreement under which AGL Services Company will provide centralized services to VNG upon consummation of the proposed acquisition of VNG by AGL Resources, Inc. (“AGLR”), (“AGL Services Agreement”). In addition, Applicants request approval for certain temporary, transitional arrangements under which VNG may be called on to provide services to Services Company. Applicants request approval of these affiliate arrangements to be effective upon consummation of AGLR’s proposed acquisition of VNG.

Applicants state that VNG is not staffed to operate as a stand-alone company. Prior to the merger between Dominion Resources, Inc. (“DRI”), and Consolidated Natural Gas Company (“CNG”), VNG received centralized services from Consolidated Natural Gas Service Company, Inc. (“CNG Service Company”), a subsidiary of CNG, pursuant to an agreement authorized by

the Commission in Case No. PUA970050. Following the merger of DRI and CNG, VNG received Commission authority in Case No. PUA990068 to receive general corporate services from both Dominion Resources Services, Inc., a subsidiary of DRI, and CNG Service Company under a new service agreement modeled after the CNG Service Company agreement. Applicants note that in light of the impending sale of VNG to AGLR VNG needs a replacement provider for such centralized services.

In accordance with the AGL Services Agreement, services provided by Services Company will be directly assigned if possible or allocated as necessary by activity, project, program, work order, or other appropriate basis. To accomplish this, employees of Services Company will record transactions using data capture and accounting systems in place at AGLR. Costs of Services Company will be accumulated in accounts and directly assigned if possible or allocated as necessary to the appropriate system company in accordance with the guidelines set forth in the AGL Services Agreement.

Applicants state that it may take up to 90 days after the merger transaction is consummated for Services Company to become fully staffed. During this temporary period of transition, it may be necessary for Services Company to utilize the services of certain employees of other companies in the AGL System, including VNG, to carry out its obligations under the AGL Services Agreement. These arrangements will be conducted so that the entities whose employees are being utilized, including VNG, will be compensated at their cost, and the associated costs will be accounted for and recovered by Services Company as provided under the AGL Services Agreement.

Applicants represent that the AGL Services Agreement is in the public interest. By obtaining corporate services from a consolidated and centralized source that can achieve

economies of scale and other business efficiencies by, among other things, eliminating duplicative personnel and facilities across AGLR's system, VNG's costs should be minimized. However, if VNG determines that the circumstances are otherwise, it will, with certain exceptions, such as Corporate Secretary and Investor Relations services,<sup>1</sup> have the option of obtaining needed services from unaffiliated suppliers and may modify its selection of services or terminate the AGL Services Agreement on 60 days' notice. Applicants further represent that, in addition, certain corporate services are already outsourced by AGLR, and such services will be delivered through those vendors, which were previously selected by a competitive process. The proposed AGL Services Agreement is modeled after the existing service agreement with Dominion Resources Services, Inc. Certain services and allocators not needed for the AGL Services Agreement have not, however, been retained.

Applicants further represent that the arrangement for temporary, transitional services is also in the public interest because it will enable Services Company to provide efficient and cost-effective centralized services to AGL and its subsidiaries, including VNG, during the brief transitional period before Services Company is fully staffed. Such arrangements will cease no later than December 31, 2000.

THE COMMISSION, upon consideration of the application and representations of Applicants and having been advised by its Staff, is of the opinion and finds that the above-described affiliate arrangements are in the public interest and should, therefore, be approved. Although some of the services provided under the AGL Services Agreement are appropriately priced at cost, the Commission finds that some services may be more appropriately priced at the

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<sup>1</sup> Applicants anticipate that such services will need to be provided to AGLR and all of its subsidiaries. Applicants assert that these services represent necessary activities of the publicly-held parent company, AGLR, that would be borne by VNG if it were a stand-alone company and that are properly allocable to VNG, as well as the other subsidiaries of AGLR.

higher of cost or market for services provided by VNG to Services Company and the lower of cost market for services provided by Services Company to VNG. Some services could conceivably be obtained from outside parties and, therefore, a market and market price exists. VNG will bear the burden, in any rate proceeding, of proving that it paid the lower of cost or market for services received from Services Company and that it received the higher of cost or market for services that it provided to Services Company.

Accordingly, IT IS ORDERED THAT:

- 1) Pursuant to § 56-77 of the Code of Virginia, Virginia Natural Gas, Inc., is hereby granted approval to enter into the AGL Services Agreement with AGL Services Company and to provide certain temporary services to AGL Services Company as described in their application, subject to certain modifications detailed herein.
- 2) For services provided to VNG, VNG shall ascertain whether there is a market for such services. If a market exists, VNG shall compare the market prices with Services Company's cost of providing services to VNG, and VNG shall pay the lower of Services Company's cost or the cost of obtaining services from an outside party.
- 3) For services provided by VNG to Services Company, VNG shall ascertain whether there is a market for such services. If a market exists, VNG shall compare such market prices with its cost of providing services to Services Company and shall charge Services Company the higher of cost or market for such services.

- 4) In future rate proceedings, VNG shall bear the burden of proving that for any services it provided to Services Company for which a market exists, it received the higher of cost or market. VNG shall also bear the burden of proving that it paid the lower of cost or market for services obtained from Services Company for which a market exists.
- 5) Should there be any changes in the terms and conditions of the AGL Services Agreement or the arrangement for the provision of temporary services to AGL Services Company from those described herein, Commission approval shall be required for such changes.
- 6) The approval granted herein shall not preclude the Commission from exercising the provisions of §§ 56-78 and 56-80 of the Code of Virginia hereafter.
- 7) The approval granted herein shall have no ratemaking implications.
- 8) The Commission reserves the authority to examine the books and records of any affiliate of Virginia Natural Gas, Inc., in connection with the approval granted herein whether or not the Commission regulates such affiliate.
- 9) Allocation factors shall be reviewed every three years with the results of such review submitted to the Division of Public Utility Accounting of the Commission.
- 10) Any allocation of marketing costs to Virginia Natural Gas, Inc., under the AGL Services Agreement shall be reported to the Commission's Division of Public Utility Accounting on an annual basis.

- 11) The AGL Services Agreement, including temporary services provided by VNG to AGL Services Company, shall be included in the Annual Report of Affiliate Transactions currently filed by Virginia Natural Gas, Inc. Such report shall include the requirements detailed in paragraphs (9) and (10) herein.
- 12) There appearing nothing further to be done in this matter, it hereby is dismissed.